

Review of the Purchase Card Program at the Railroad Retirement Board
Report No. 04-04, June 21, 2004

INTRODUCTION

This report presents the results of the Office of Inspector General's (OIG) review of the purchase card program at the Railroad Retirement Board (RRB).

Background

The RRB's mission is to administer retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families. During fiscal year (FY) 2003, the RRB paid approximately \$8.9 billion in railroad retirement and survivor benefits to about 666,000 beneficiaries. The RRB also paid benefits of \$94 million to 37,000 claimants under the Railroad Unemployment and Sickness Insurance Act (RUIA).

The General Services Administration (GSA) initiated a government-wide credit card program to streamline the procurement process for low dollar goods and services. This program allows authorized Federal employees to make official government purchases and also reduces administrative costs associated with low dollar purchases. The RRB selected Citibank Corporation from the GSA schedule, agreeing to all the terms and conditions established by GSA and Citibank.

The RRB uses the credit card for individual purchases of goods and services that do not exceed \$25,000. Approximately nine percent of the RRB's staff has purchase cards. The RRB cardholders charged about \$422,000 in FY 2002 and \$453,000 in FY 2003.¹

Recent Congressional testimony and General Accounting Office reports have shown that some Federal agencies do not have adequate internal controls over their purchase card programs. Without effective controls, Federal agencies have little assurance that abusive, improper and fraudulent purchases can be prevented and detected.

The RRB's Division of Acquisition Management in the Office of Administration is responsible for issuing cards and providing oversight to the RRB purchase card program. This division reviews credit card applications and determines whether to issue or deny cards. Acquisition Management sets the dollar limits on the card and sends a letter of delegation to the individual. They inform the bureau director if an application is denied or if there are changes to requests. After approval, the division sends the application to Citibank, and Citibank mails the purchase card directly to the employee.

¹ The two billing years for the purchase card which were in the scope of our review ran from September 26, 2001 to September 26, 2002 and from September 26, 2002 to September 25, 2003. As these periods closely approximate the agency's fiscal year, we used data from the billing year statements for our statistics.

They also obtain and review monthly reports from the Citibank on-line system of cardholder transactions.

The Bureau of Fiscal Operations (BFO) receives a monthly consolidated statement from Citibank and pays the RRB purchase card charges. Agency officials designated to certify purchase card charges for payment submit approved individual purchase card statements to BFO. BFO records the expenditure in the agency's accounting records and reconciles the individual cardholder statements to the consolidated statement.

The RRB's 2003-2008 Strategic Plan's second goal is to serve as "responsible stewards for our customers' trust funds and agency resources." A well-controlled purchase card program contributes to this agency goal.

Objective, Scope and Methodology

The objective of this review was to evaluate the RRB's controls over the purchase card program. This scope covered most purchase card charges in FYs 2002 and 2003. To accomplish this review, we performed work to assess card issuance and administration, monitoring and oversight of card use, and the payment of invoices. Our work included:

- Analyzing laws, regulations, policies, procedures and internal controls relevant to the purchase card program, including the Citibank agreement.
- Obtaining and reviewing monthly purchase card invoices, and the master list of purchase card holders.
- Reviewing supporting documentation for a random sample of 111 and a judgmental sample of 51 purchase card transactions from the universe of 2,745 transactions for FYs 2002 and 2003. We determined if charges were appropriate, properly authorized, and adequately documented.
- Reviewing reports containing information on rejected transactions.
- Examining purchase card documentation to assess controls over the authorization process for new cardholders and the cancellation process for separated employees.
- Reviewing reports to analyze the level of card use by cardholders.
- Analyzing BFO's reconciliation process for payment of the monthly credit card bill.

This audit was conducted in accordance with generally accepted government auditing standards as applicable to the objective and scope of this review. The scope of our review did not test whether appropriate purchase card charges were properly recorded as accountable property since a prior OIG review addressed that objective.² Fieldwork was conducted at the RRB headquarters in Chicago, Illinois from October 2003 through April 2004.

² OIG Inspection Report: "Actions Taken To Improve Internal Control Over Fixed Assets," Report No. 03-08, August 20, 2003.

RESULTS OF REVIEW

Our review indicates that the RRB should strengthen operational and management controls to improve the effectiveness and efficiency of the purchase card program. Most of our findings indicate the need for the agency to provide clear guidance to purchase card holders, update procedures and important documents relating to the program, improve controls over the program, and provide refresher training that emphasizes good controls over card purchases.

Our review of sample transactions did not uncover any instances of fraudulent, wasteful, or abusive purchases. While we did identify instances of unauthorized purchases, the cases were already identified and the employee had reimbursed the agency. Nevertheless, an improvement in the control environment is needed to ensure effectiveness of the purchase card program.

The details of our findings and recommendations follow.

Weakness in Cardholder Administration

The RRB does not periodically review whether existing cardholders still need a purchase card at their approved credit limit. In addition, the RRB is not adequately controlling the process of canceling purchase cards when a cardholder leaves the agency.

The RRB's purchase card directives, "Procedures for Using the Government Commercial Credit Card Service," state that the Director of Supply and Service³ may delegate authority for purchases up to \$25,000 to individuals that have a need for the authority. Lack of card activity warrants management's review of the need for a purchase card. Agency management should be aware of charge limits of their cardholders.

During the 2003 billing year, 44 of 94 RRB purchase cardholders made five or less purchase card transactions. Nine individuals had no transactions and seven cardholders had only one transaction. In such instances, there is no procedure or directive which instructs RRB management to review whether individuals still need purchase cards and if credit limits are appropriate. While the OIG recognizes that level of use is not the only factor to consider in such a review, we believe that it is significant.

Upon separation from the agency, the cardholder must cut the card in half and return it to the designated approving official. The approving official will return the card to the RRB's purchase card program administrator who then cancels the card account. As an

³ The RRB has abolished the Director of Supply and Service position and reassigned these purchase card responsibilities to the Chief of Acquisition Management.

additional control, the Bureau of Human Resources provides a monthly report of separated employees to the purchase card program administrator. The administrator is to review these reports to determine if any separated employees were purchase cardholders. If a purchase cardholder is identified, the administrator should ensure that the individual's purchase card has been cancelled.

Our review of FYs 2002 and 2003 monthly reports of separated employees identified seven individuals who had purchase cards. The program administrator was unable to determine when he cancelled these purchase cards because the agency does not maintain records of card deactivation. In addition, not all monthly reports of separated employees were in the program administrator's file. Therefore, there is no evidence to support that cards are cancelled in a timely manner. The purchase card program administrator did not cancel the account for a former employee who separated in August 2001 until after the OIG advised that the account was active in January 2004. There were no purchases made with this card after the employee separated.

Because of weaknesses in cardholder administration, the RRB's financial exposure to the purchase card program is increased and the program is more difficult to manage. RRB individuals who currently have a card may not need one. Also, RRB managers will not be able to monitor the appropriateness of credit limits. In addition, the lack of control over the cancellation process for separated employees also increases the agency's risk of unauthorized, abusive and/or fraudulent purchases.

Recommendations

The OIG recommends that the Office of Administration:

1. Advise RRB management to institute procedures to periodically review a cardholder's continuing need for a purchase card and the appropriateness of the credit limit. A suitable time for this type of review would be when a purchase card is due to expire.
2. Maintain all monthly reports of separated employees and document, on a monthly basis, cancellation of the purchase cards for separated employees.

Management's Response

Management in the Office of Administration concurs with both recommendations and will institute procedures to review a cardholder's continuing need with the next renewal cycle of half the issued cards by January 2005. Management also advised that they have implemented the recommendation concerning separated employees. A complete copy of the responses is included in Appendix I.

Incomplete Documentation of Purchase Cardholders

Our review of files maintained by the Division of Acquisition Management revealed that the agency does not have complete and sufficient documentation to show that current cardholders are properly authorized to use their purchase card.

The RRB purchase card procedures state that the Office of Administration will serve as the focal point for coordination of the applications, issuance and destruction of cards, establishment of reports, and administrative funding. The application process includes the cardholder's request memorandum, the purchase card application and the delegation of authority letter. The Chief of Acquisition Management is required to sign a "Delegation of Authority" letter and provide a copy to cardholders before they begin using the card. This letter authorizes use of the purchase card and specifies the credit card limit.

Of the 94 cardholders in July 2003, the agency had complete documentation for 12 cardholders. However, Acquisition Management had no authorization documentation on file for 65 current cardholders and had incomplete documents for the remaining 17 cardholders.

Acquisition Management did not maintain complete documentation of the application process. Some purchase card files also could not be located due to a change in the agency program administrator in 2003. As a result of this inadequate documentation, there is a risk that cardholders may not have been properly authorized for purchase cards.

Recommendation

The OIG recommends that the Office of Administration:

3. Obtain the necessary documentation to recertify the 82 cardholders with incomplete purchase card files. At a minimum, the documentation should include the "Delegation of Authority" letter.

Management's Response

The Office of Administration concurs and will obtain the documentation to recertify the 82 cardholders by August 2004. The complete response is included in Appendix I.

Inadequate Documentation Supporting Purchases

The RRB sometimes lacks adequate and complete documentation to support purchase card transactions. In some cases, there is no documentation to show that the RRB actually received an item ordered from a vendor. In other cases, the documentation did

not clearly identify what was purchased or provide an independent source of support for the transaction.

The Treasury Financial Manual, Vol. 1, Part 4, Section 4525, requires each agency to have its own internal procedures for using purchase cards. The RRB's purchase card procedures state that when a purchase is "made over the counter, the cardholder should obtain a customer copy of the charge slip, which will become the accountable document." These procedures also state that when making purchases by telephone, the cardholder is to document the transaction on a log and attach any shipping documents associated with the order.

At the end of each monthly billing cycle, cardholders must reconcile the information on the purchase card statements to supporting documentation. The cardholders sign the statements, attach all supporting documentation and forward the documents to their designated approving officials who review and certify the monthly statements. These officials then forward a copy of the monthly statement to BFO. The approving officials should retain the supporting documentation on purchases.

Sometimes purchases made by Acquisition Management employees are delivered to other agency departments. In these instances, the RRB's Administrative Circular BSS-14, Procurement for Goods and Services, indicates that the receiving employee shall be required to sign and date the packing slip. A copy of this packing slip is to be forwarded to the Office of Administration's Purchasing Division for inclusion in the purchase order file.

Of the sample of 162 purchase card transactions that the OIG reviewed, we determined that there was insufficient documentation in 41 cases. The occurrences and reasons for insufficient documentation are detailed below.⁴

- Cardholders did not sufficiently document actual receipt of the item(s) for 25 orders, including many telephone and Internet orders. There was no clearly identified documentation (packing lists, shipping documents, etc.) maintained by the cardholders or approving officials supporting receipt of the orders.
- The Division of Purchasing made a purchase and the packing slip signed by the designated employee in the receiving office or bureau was not included in the purchase order file for six cases.
- Documentation used to support 11 purchase card transactions either did not sufficiently describe the purchased goods or services or support the amount charged to the card. It is critical that supporting documentation provided by the cardholder describe the purchase because this is the only source of this information. The credit card bill and other reports do not provide information on what was purchased.

⁴ Some cases had multiple reasons cited for insufficient documentation. This accounts for the difference between the 41 cases and the 46 total cases in the detail.

- No vendor records (invoice, receipt, shipping documents, etc.) were used to support four purchase card transactions. The only support was either internal RRB e-mail or handwritten notes from the cardholders.

The Office of Administration has not updated procedures to clearly address the need to document actual physical receipt and acceptance of items acquired with the purchase card. Procedures also fail to provide details on documentation for Internet transactions. In addition, the Office of Administration has not updated the purchase card procedures to include the current Administrative Office, Finance Office, and Dispute Office contacts, as well as the Contracting Officer's Technical Representative.

By not documenting the receipt and acceptance of some goods acquired through Internet and telephone orders, the RRB could pay for items it never receives. Also, insufficient documentation of purchase card transactions and outdated procedures increase the risk of abusive, unauthorized or potentially fraudulent purchases.

Recommendations

The OIG recommends that the Office of Administration:

4. Revise the RRB's purchase card procedures to provide more specific guidance on what kind of documentation should be obtained to support the ordering, receipt and acceptance of various types of purchases, including telephone and internet transactions.
5. Review and update the purchase card procedures and Administrative Circular BSS-14, including the current Administrative Office, Finance Office, Dispute Office, and Contracting Officer's Technical Representative contacts.

Management's Response

The Office of Administration agrees and will complete the recommended revisions of the purchase card procedures by September 2004. A complete copy of the response is included in Appendix I.

Merchant Category Code Control Can Be Improved

The agency's usage of the Merchant Category Code (MCC) control is inadequate to minimize unauthorized purchase charges. The MCC is a code assigned to a group of vendors offering similar services and products. It is designed to provide the program participants with a method to limit usage of the card to approved vendors or approved categories of purchase.

The RRB purchase card procedures provide detailed directives on authorized and unauthorized usage of the purchase card. The procedures state that "without

exception, the Citibank card may only be used to pay for authorized US Government purchases.” They further state specific instances in which the purchase card is not authorized for use, including cash advances, rental or lease of motor vehicles, and telephone calls. The Citibank Government Purchase Guide assigns and delineates responsibilities for participants. The guide also specifies card parameters for MCC inclusions and exclusions.

The OIG reviewed the recent Citibank listing of MCC codes to evaluate the appropriateness of current code restrictions at the agency. Codes have not been restricted for the following vendor categories:

- Specific car rental agencies, although other transportation and travel services, including various automobile services and the general category, “Automobile Rental,” is restricted.
- Certain other retail establishments where, in most instances, authorized purchases probably should or would not be made. Examples include pawn shops, antique shops, salvage/wrecking yards, second hand stores, and various recreational purchases such as timeshares, trailer parks, golf courses, and amusement parks.

Acquisition Management has not adequately directed Citibank to restrict the MCC list to fully comply with the agency’s regulation. In September 2001, the agency requested that Citibank remove all MCC restrictions from agency purchase cards. Although restrictions were subsequently re-established in October 2002, they remain insufficient to ensure adequate controls over purchase card usage.

Inadequate restriction increases the risk that agency staff will improperly use the purchase cards for abusive, inappropriate and/or potentially fraudulent use. During our review of sampled transactions, we identified several charges for personal items and travel in which cardholders improperly used the purchase card. The cardholders notified the approving official and later repaid the agency in all of these instances. However, restricting the MCC list for the appropriate vendor categories would have been an effective preventive control procedure in many of these instances.

Recommendation

The OIG recommends that the Office of Administration:

6. Review Citibank’s current MCC list to identify additional codes to restrict, and then direct Citibank to update the restricted MCC codes for the RRB.

Management’s Response

The Office of Administration concurs and will complete their review and update of the MCC list by August 2004. The complete response appears in Appendix I.

Approving Official Signature Cards Not Maintained by BFO

BFO does not maintain signature cards of the approving officials on file. The bureau does not verify whether the person signing as the approving official for submitted purchase cardholder statements was actually designated as such.

RRB procedures state that when the account information is submitted to the purchase card administrator, a signature card must be completed that states the approving official may certify purchase card invoices for payment. A copy of the signature should be forwarded to BFO's Accounts Payable Division after completion. Approving officials review the cardholder's monthly statements and serve as liaison with the program's contact officials. They certify the cardholder's monthly statements and ensure that payments are for authorized purchases made in accordance with agency regulations.

Our review of files revealed that, although Acquisition Management maintains a list of approving officials, they had not obtained the corresponding signature cards or forwarded the listing of approving officials to BFO. BFO, in turn, has not requested a listing of approving officials and file of signature cards for the designated approving officials.

Without full knowledge of the current approving officials and signature cards, there is a higher risk that BFO may process purchase card payments of non-authorized persons and fraudulent charges.

Recommendations

The OIG recommends that:

7. The Office of Administration obtain signature cards of the approving officials and forward them to BFO, and
8. BFO verify, on a periodic basis, the signatures of the approving official of submitted credit card statements.

Management's Response

Managements in the Office of Administration and BFO agree with the recommendations directed to their bureaus. The Office of Administration will obtain signature cards by August 2004 and BFO will begin verification as soon as they receive the cards from the Office of Administration. A complete copy of the response from each bureau is included in Appendix I and II, respectively.

Refresher Training for Cardholders and Approving Officials Is Needed

The RRB does not have a detailed training program for purchase cardholders and approving officials. The deficiencies identified in our review of purchase card transactions support the need for refresher training. There was insufficient documentation in nearly 25 percent of the sample cases. We also identified 14 cases for which the RRB may have improperly paid sales tax. The Citibank Cardholder Guide states that purchases made by the Federal government are generally exempt from state and local taxes.

The Treasury Financial Manual requires that each participating agency establish a training program on the government-wide credit card procedures and small purchasing regulations. The manual suggests that cardholders, approving officials, and billing office employees who are involved in the program should attend agency training.

RRB officials did not consider refresher training since agency and Citibank purchase card procedures are available on the agency's Intranet. Citibank also provides a Cardholder Guide when they issue a new card. However, inadequate training increases the risk of inappropriate, abusive and/or unauthorized purchases. Refresher training also helps to ensure that purchase cardholders and approving officials remain knowledgeable of good practices for using the government cards.

Recommendation

The OIG recommends that the Office of Administration:

9. Establish and document a formal training program for the purchase cardholders and approving officials.

Management's Response

The Office of Administration concurs, and will establish and document a training program by January 2005. The complete response appears in Appendix I.



UNITED STATES GOVERNMENT

MEMORANDUM

Appendix I

FORM G-1156 (1-92)

RAILROAD RETIREMENT BOARD

June 14, 2004

TO : Martin J. Dickman
Inspector General

FROM : Henry M. Vafinlis
Director of Administration / Senior Executive Officer

SUBJECT: Review of RRB Purchase Card Program

Thank you for the opportunity to review and comment on your draft report entitled "*Review of the Purchase Card Program at the Railroad Retirement Board (RRB)*." The Office of Administration (OA) recognizes its role for issuing cards and providing oversight and guidance to the RRB purchase card program.

The OA has been a proponent of the purchase card program since the first purchase card contract was issued by the General Services Administration in 1989, the recommended expansion of the program by the National Performance Review in 1993, and the current guidance under the Federal Acquisition Streamlining Act and Executive Order 122931. Best practices studies have shown organizations that experienced the most benefit from purchase card use were the ones who decentralized control and distributed the cards throughout the organization to empower individual end users. Government estimates for the program indicate savings of about \$53 to \$117 per transaction. Savings is defined as the difference between the cost of the traditional purchase order and the purchase card transaction. The RRB averages about 1,400 transactions a year.

We are pleased that the review did not uncover any instances of fraudulent, wasteful or abusive purchases. While this would indicate an adequate purchase card management, the auditors recommend additional controls that would strengthen the existing program. The draft report contains nine recommendations to improve the effectiveness and efficiency of the purchase card program. Except for No. 8, where BFO is the action office, we agree with all the recommendations and will implement all of them. Recommendation No. 1 will be implemented with the next renewal cycle of half the issued cards by January 2005. Recommendation No. 2 has been implemented. Recommendation Nos. 3, 6 and 7 will be completed by August 2004. Recommendation Nos. 4 and 5 will be completed by September 2004. Finally, Recommendation No. 9 will be completed by January 2005.

cc: Chief Financial Officer



UNITED STATES GOVERNMENT
MEMORANDUM

FORM 6-1151 (1-82)
RAILROAD RETIREMENT BOARD

JUN 16 2004

TO : Henrietta B. Shaw
Assistant Inspector General for Audit

FROM : Kenneth P. Boehne
Chief Financial Officer

A handwritten signature in cursive script, appearing to read "Kenneth P. Boehne", is written over the printed name and title.

SUBJECT: Draft Report – Review of the Purchase Card Program
at the Railroad Retirement Board

We have reviewed the above draft audit report dated June 7, 2004, and our comment on recommendation number 8 directed to the Bureau of Fiscal Operations is as follows:

Recommendation 8: We concur and will implement this recommendation as soon as we receive the signature cards of the approving officials.

cc: Director of Administration
Chief of Accounting, Treasury, and Financial Systems
Finance Officer